

**REPORT OF THE AUDIT OF THE
FLEMING COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FLEMING COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Fleming County Fiscal Court for fiscal year ended June 30, 2004.

We have issued unqualified opinions, based on our audit, on the governmental activities, each major fund, and aggregate remaining fund information financial statements of Fleming County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Fleming County's major federal program, Federal Emergency Management Assistance Grant FEMA-1454-DR-KY, for the year ended June 30, 2004.

Financial Condition:

The fiscal court had net assets of \$3,074,186 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,216,665 in its governmental activities as of June 30, 2004, with total net assets of \$3,074,186. The fiscal court had total debt principal as of June 30, 2004 of \$298,386 with \$173,219 due within the next year.

Report Comments:

2004-01 The County Should Maintain An Accurate Schedule Of Expenditures Of Federal Awards

2004-02 The County Should Eliminate The Deficit In The Payroll Revolving Account

2004-03 Lacks Adequate Segregation Of Duties

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Larry Foxworthy, Fleming County Judge/Executive
Members of the Fleming County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fleming County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Fleming County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, Fleming County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above include only the primary government of Fleming County, Kentucky, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise Fleming County's legal entity. The financial statements do not include financial data for Fleming County's legally separate component units, which accounting principles generally accepted in the United States of America as they relate to the modified cash basis of accounting require to be reported with the financial data for Fleming County's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Fleming County, Kentucky, as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with the modified cash basis of accounting.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the primary government of Fleming County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Larry Foxworthy, Fleming County Judge/Executive
Members of the Fleming County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of Fleming County, Kentucky's basic financial statements. The accompanying supplementary information and combining and individual fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 4, 2005, on our consideration of Fleming County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- 2004-01 The County Should Maintain An Accurate Schedule Of Expenditures Of Federal Awards
- 2004-02 The County Should Eliminate The Deficit In The Payroll Revolving Account
- 2004-03 The County Lacks Adequate Segregation Of Duties

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 4, 2005

FLEMING COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Larry Foxworthy	County Judge/Executive
Ray Money	Magistrate
Roger Jolly	Magistrate
Larry Dearing	Magistrate
Steve Call	Magistrate
Kenneth Sowder	Magistrate
Chris Hickerson	Magistrate

Other Elected Officials:

John Price	County Attorney
Gary Conley	Jailer
Marilyn Spencer	County Clerk
Pam Lowe	Circuit Court Clerk
Jerry Wagner	Sheriff
Connie Crane	Property Valuation Administrator
Joe Denton	Coroner

Appointed Personnel:

Kathryn Dryden	County Treasurer
Angie Stephens	Finance Officer

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FLEMING COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

FLEMING COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,678,729
Total Current Assets	<u>1,678,729</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	247,600
Buildings	265,176
Other Equipment	532,709
Vehicles and Equipment	247,338
Infrastructure Assets - Net of Accumulated Depreciation	<u>401,020</u>
Total Noncurrent Assets	<u>1,693,843</u>
Total Assets	<u><u>3,372,572</u></u>
LIABILITIES	
Current Liabilities:	
Financing Obligations Payable	137,053
Noncurrent Liabilities:	
Financing Obligations Payable	<u>161,333</u>
Total Liabilities	<u>298,386</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,395,457
Restricted For:	
Capital Projects	462,064
Unrestricted	<u>1,216,665</u>
Total Net Assets	<u><u>\$ 3,074,186</u></u>

The accompanying notes are an integral part of the financial statements.

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FLEMING COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

FLEMING COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,296,373	\$ 14,731	\$ 167,853	\$ 121,481
Protection to Persons and Property	1,130,349	28,597	251,230	22,589
General Health and Sanitation	43,260			
Social Services	19,018			
Recreation and Culture	77,058			
Roads	597,149	4,703	1,014,780	835,921
Airports	15,326			
Interest on Long-Term Debt	27,066			
Total Governmental Activities	3,205,599	48,031	1,433,863	979,991
Total Primary Government	\$ 3,205,599	\$ 48,031	\$ 1,433,863	\$ 979,991

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

 Total General Revenues

 Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets	
Primary Government	
Governmental Activities	Totals
\$ (992,308)	\$ (992,308)
(827,933)	(827,933)
(43,260)	(43,260)
(19,018)	(19,018)
(77,058)	(77,058)
1,258,255	1,258,255
(15,326)	(15,326)
(27,066)	(27,066)
<u>(743,714)</u>	<u>(743,714)</u>
<u>(743,714)</u>	<u>(743,714)</u>
603,205	603,205
2,012	2,012
120,894	120,894
414,303	414,303
92,287	92,287
357,997	357,997
32,592	32,592
<u>1,623,290</u>	<u>1,623,290</u>
879,576	879,576
<u>2,194,610</u>	<u>2,194,610</u>
<u>\$ 3,074,186</u>	<u>\$ 3,074,186</u>

The accompanying notes are an integral part of the financial statements.

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FLEMING COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

FLEMING COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Local Government Economic Assistance Fund	Revolving Loan Fund	Capital Improvement Fund
ASSETS					
Cash and Cash Equivalents	\$ 405,096	\$ 227,975	\$ 209,959	\$ 462,064	\$ 302,054
Total Assets	<u>\$ 405,096</u>	<u>\$ 227,975</u>	<u>\$ 209,959</u>	<u>\$ 462,064</u>	<u>\$ 302,054</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 2,418	\$ 4,120	\$	\$	\$
Unreserved:					
General Fund	402,678				
Special Revenue Funds		223,855	209,959	\$ 462,064	\$ 302,054
Total Fund Balances	<u>\$ 405,096</u>	<u>\$ 227,975</u>	<u>\$ 209,959</u>	<u>\$ 462,064</u>	<u>\$ 302,054</u>

The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 71,581</u>	<u>\$ 1,678,729</u>
<u>\$ 71,581</u>	<u>\$ 1,678,729</u>

\$ 99 \$ 6,637

	402,678
<u>71,482</u>	<u>1,269,414</u>
<u>\$ 71,581</u>	<u>\$ 1,678,729</u>

Funds to the Statement of Net Assets

Total Fund Balances	\$ 1,678,729
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	2,815,167
Accumulated Depreciation	(1,121,324)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	<u>(298,386)</u>
Net Assets Of Governmental Activities	<u>\$ 3,074,186</u>

The accompanying notes are an integral part of the financial statements.

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FLEMING COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

FLEMING COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Local Government Economic Assistance Fund	Revolving Loan Fund
REVENUES				
Taxes	\$ 897,180	\$	\$	\$
Excess Fees	92,287			
Licenses and Permits	8,639			
Intergovernmental	226,645	1,752,001	98,501	
Charges for Services	50			
Miscellaneous	292,704	14,136	132	121,511
Interest	16,558	5,747	2,611	4,157
Total Revenues	<u>1,534,063</u>	<u>1,771,884</u>	<u>101,244</u>	<u>125,668</u>
EXPENDITURES				
General Government	469,964			70,255
Protection to Persons and Property	87,353	597,905		
General Health and Sanitation	38,850	6,923		
Social Services	19,018			
Recreation and Culture	66,632			
Roads		996,836	19,725	
Airports	7,576			7,750
Debt Service	31,620	115,571	14,352	
Administration	576,903	125,927	20	
Total Expenditures	<u>1,297,916</u>	<u>1,843,162</u>	<u>34,097</u>	<u>78,005</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>236,147</u>	<u>(71,278)</u>	<u>67,147</u>	<u>47,663</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	13,052	130,000	40,000	25,000
Transfers To Other Funds	(498,852)	(40,000)	(130,000)	
Total Other Financing Sources (Uses)	<u>(485,800)</u>	<u>90,000</u>	<u>(90,000)</u>	<u>25,000</u>
Net Change in Fund Balances	(249,653)	18,722	(22,853)	72,663
Fund Balances - Beginning	654,749	209,253	232,812	389,401
Fund Balances - Ending	<u>\$ 405,096</u>	<u>\$ 227,975</u>	<u>\$ 209,959</u>	<u>\$ 462,064</u>

The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Capital Improvement Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 240,293	\$ 1,137,473
		92,287
		8,639
	155,230	2,232,377
	25,644	25,694
	127,630	556,113
2,604	915	32,592
<u>2,604</u>	<u>549,712</u>	<u>4,085,175</u>
500		540,719
	408,278	1,093,536
		45,773
		19,018
		66,632
		1,016,561
		15,326
	281,363	442,906
50	43,482	746,382
<u>550</u>	<u>733,123</u>	<u>3,986,853</u>
2,054	(183,411)	98,322
300,000	173,852	681,904
	(13,052)	(681,904)
<u>300,000</u>	<u>160,800</u>	
302,054	(22,611)	98,322
	94,192	1,580,407
<u>\$ 302,054</u>	<u>\$ 71,581</u>	<u>\$ 1,678,729</u>

The accompanying notes are an integral part of the financial statements.

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FLEMING COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

FLEMING COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 98,322
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	515,387
Depreciation Expense	(149,973)
Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.	
Financing Obligations	<u>415,840</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 879,576</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Fleming County do not include the legally separate funds, agencies, boards, and entities for which the fiscal court is financially accountable. Legally separate organizations are defined as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. The reporting entity previously included these organizations that are legally separate from the primary government.

Public Properties Corporation

The Public Properties Corporation is a legally separate entity established to provide long-term debt service for the fiscal court. The Public Properties Corporation's governing body consists entirely of fiscal court members. Therefore, management must include the Public Properties Corporation as a component unit and the financial information should be blended with that of the fiscal court. However, since there was no financial activity for the Public Properties Corporation, financial statement disclosure has been excluded.

Fleming County Hospital District

Fleming County Hospital District (District) is a legally separate entity established to operate as the Fleming County Hospital. The Fleming County Fiscal Court appoints all of the District's directors. Management should include the District as a discretely presented component unit, but has elected to exclude the District from presentation in the County's financial statements.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Fleming County Elected Officials Not Part Of Fleming County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Fleming County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Fleming County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Since there is only one fund type (governmental) presented for Fleming County, major funds are those whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as major. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Local Government Economic Assistance Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for coal severance and mineral taxes. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Revolving Loan Fund - The purpose of this fund is to account for funds received from reimbursements of a Community Development Block Grant used for low interest loans to qualifying businesses.

Capital Improvements Fund - The purpose of this fund is to account for capital projects relating to building maintenance.

The primary government also has the following non-major funds: Jail Fund, Forestry Fund, and Dispatch Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Forestry Fund, Revolving Loan Fund, Dispatch Fund, and Capital Improvement Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 31 following the assessment, and subject to lien and sale on April 6 following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 1	10-60
Buildings and Building Improvements	\$ 1	10-75
Machinery and Equipment	\$ 500	3-25
Vehicles	\$ 500	3-25
Infrastructure	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 247,600	\$	\$	\$ 247,600
Total Capital Assets Not Being Depreciated	247,600			247,600
Capital Assets, Being Depreciated:				
Buildings	878,500			878,500
Other Equipment	826,678	31,760		858,438
Vehicles and Equipment	347,002	38,050		385,052
Infrastructure		445,577		445,577
Total Capital Assets Being Depreciated	2,052,180	515,387		2,567,567
Less Accumulated Depreciation For:				
Buildings	(593,008)	(20,316)		(613,324)
Other Equipment	(262,391)	(63,338)		(325,729)
Vehicles and Equipment	(115,952)	(21,762)		(137,714)
Infrastructure		(44,557)		(44,557)
Total Accumulated Depreciation	(971,351)	(149,973)		(1,121,324)
Total Capital Assets, Being Depreciated, Net	1,080,829	365,414		1,446,243
Governmental Activities Capital Assets, Net	\$ 1,328,429	\$ 365,414	\$ 0	\$ 1,693,843

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 13,542
Protection to Persons and Property	46,338
General Health and Sanitation	287
Recreation and Culture	10,426
Roads, Including Depreciation of General Infrastructure Assets	<u>79,380</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 149,973</u>

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Short-term Debt

In July 2003, Fleming County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,956,800, with principal being due in January 2004. While the county did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$1,931.

Note 5. Long-term Debt

A. Capital Lease - Sheriff Vehicle and Road Equipment

On May 26, 1999, the Fleming County Fiscal Court entered into an \$87,000 lease agreement with the Kentucky Association of Counties for the purchase of a vehicle for the Sheriff's office and road equipment. The agreement required variable monthly payments for 48 months to be paid in full June 20, 2003. The principal balance of the agreement was paid in full as of June 30, 2004.

B. Capital Lease - Road Paving

On August 20, 2000, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the paving of county roads. The agreement requires variable monthly payments for 60 months to be paid in full July 20, 2005. The principal balance of the agreement was \$215,000 as of June 30, 2004. Lease payments for the remaining years are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2005	\$ 5,700	\$ 105,000
2006	440	110,000
Totals	<u>\$ 6,140</u>	<u>\$ 215,000</u>

C. Capital Lease - Courthouse Renovation

On August 28, 2001, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the renovation of the Courthouse. The agreement requires variable monthly payments for 60 months to be paid in full January 20, 2006. The principal balance of the agreement was \$35,000 as of June 30, 2004. Lease payments for the remaining years are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2005	\$ 978	\$ 15,000
2006	397	20,000
Totals	<u>\$ 1,375</u>	<u>\$ 35,000</u>

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

D. Capital Lease – Ambulance and Life Saving Equipment

On August 28, 2001, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of an ambulance and life saving equipment. The agreement requires variable monthly payments for 60 months to be paid in full August 28, 2007. The principal balance of the agreement was \$12,177 as of June 30, 2004. Lease payments for the remaining years are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2005	\$ 395	\$ 5,334
2006	178	5,551
2007	9	1,292
Totals	<u>\$ 582</u>	<u>\$ 12,177</u>

E. Capital Lease – 911 Emergency Equipment

On April 5, 2002, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of 911 emergency equipment. The agreement initially required variable monthly payments for 84 months to be paid in full April 20, 2009. However, the principal balance of the agreement was paid in full as of June 30, 2004.

F. Capital Lease – Dump Truck

On November 8, 2002, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of a dump truck. The agreement requires variable monthly payments for 60 months to be paid in full January 20, 2007. The principal balance of the agreement was \$36,209 as of June 30, 2004. Lease payments for the remaining years are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2005	\$ 798	\$ 11,719
2006	496	12,066
2007	185	12,424
Totals	<u>\$ 1,479</u>	<u>\$ 36,209</u>

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

G. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

		Beginning			Ending	Due Within
		Balance	Additions	Reductions	Balance	One Year
Primary Government:						
Governmental Activities:						
Financing Obligations		\$ 714,226	\$	\$ 415,840	\$ 298,386	\$ 137,053
Governmental Activities						
Long-term Liabilities		\$ 714,226	\$ 0	\$ 415,840	\$ 298,386	\$ 137,053

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 7. Deferred Compensation

The Fleming County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority, 105 Sea Hero Road Suite #1, Frankfort, Kentucky 40601-8862, or by telephone at 502-573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2004, Fleming County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental activities is an increase of \$614,203 due to capital assets previously not reported, and the effect of long-term debt.

FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

GENERAL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 779,700	\$ 779,700	\$ 897,180	\$ 117,480
Excess Fees	82,048	82,048	92,287	10,239
Licenses and Permits	9,000	9,000	8,639	(361)
Intergovernmental Revenue	1,005,276	1,135,396	226,645	(908,751)
Charges For Services	100	100	50	(50)
Miscellaneous	232,397	232,397	292,704	60,307
Interest	50,500	50,500	16,558	(33,942)
Total Revenues	2,159,021	2,289,141	1,534,063	(755,078)
EXPENDITURES				
General Government	555,357	555,357	469,964	85,393
Protection to Persons and Property	72,519	161,474	87,353	74,121
General Health and Sanitation	50,825	50,825	38,850	11,975
Social Services	14,300	24,300	19,018	5,282
Recreation and Culture	874,500	874,500	66,632	807,868
Airports		7,576	7,576	
Debt Service	1,497,126	1,497,126	31,620	1,465,506
Administration	611,085	684,761	576,903	107,858
Total Expenditures	3,675,712	3,855,919	1,297,916	2,558,003
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,516,691)	(1,566,778)	236,147	1,802,925
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			13,052	13,052
Transfers To Other Funds	(553,471)	(553,471)	(498,852)	54,619
Borrowed Money	1,465,500	1,465,500	1,465,500	
Borrowed Money Repaid			(1,465,500)	(1,465,500)
Total Other Financing Sources (Uses)	912,029	912,029	(485,800)	(1,397,829)
Net Changes in Fund Balance	(604,662)	(654,749)	(249,653)	405,096
Fund Balance - Beginning	604,662	654,749	654,749	
Fund Balance - Ending	\$ 0	\$ 0	\$ 405,096	\$ 405,096

FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,744,944	\$ 1,804,944	\$ 1,752,001	\$ (52,943)
Miscellaneous	2,000	2,000	14,136	12,136
Interest	11,300	11,300	5,747	(5,553)
Total Revenues	1,758,244	1,818,244	1,771,884	(46,360)
EXPENDITURES				
Protection to Persons and Property	875,000	875,000	597,905	277,095
General Health and Sanitation	24,540	24,540	6,923	17,617
Roads	945,450	1,005,450	996,836	8,614
Debt Service	606,534	606,534	115,571	490,963
Administration	137,521	146,774	125,927	20,847
Total Expenditures	2,589,045	2,658,298	1,843,162	815,136
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(830,801)	(840,054)	(71,278)	768,776
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	138,500	138,500	130,000	(8,500)
Transfers to Other Funds			(40,000)	(40,000)
Borrowed Money	491,300	491,300	491,300	
Borrowed Money Repaid			(491,300)	(491,300)
Total Other Financing Sources (Uses)	629,800	629,800	90,000	(539,800)
Net Changes in Fund Balance	(201,001)	(210,254)	18,722	228,976
Fund Balance - Beginning	200,000	209,254	209,253	(1)
Fund Balance - Ending	\$ (1,001)	\$ (1,000)	\$ 227,975	\$ 228,975

FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

LGEA FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 81,707	\$ 81,707	\$ 98,501	\$ 16,794
Miscellaneous	50	50	132	82
Interest	2,500	2,500	2,611	111
Total Revenues	84,257	84,257	101,244	16,987
EXPENDITURES				
Roads	103,000	103,000	19,725	83,275
Debt Service	12,948	12,948	14,352	(1,404)
Administration	29,809	29,809	20	29,789
Total Expenditures	145,757	145,757	34,097	111,660
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(61,500)	(61,500)	67,147	128,647
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			40,000	40,000
Transfers To Other Funds	(138,500)	(138,500)	(130,000)	8,500
Total Other Financing Sources (Uses)	(138,500)	(138,500)	(90,000)	48,500
Net Changes in Fund Balance	(200,000)	(200,000)	(22,853)	177,147
Fund Balance - Beginning	200,000	200,000	232,812	32,812
Fund Balance - Ending	\$ 0	\$ 0	\$ 209,959	\$ 209,959

FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	REVOLVING LOAN			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ 41,245	\$ 121,481	\$ 121,511	\$ 30
Interest	5,020	5,020	4,157	(863)
Total Revenues	46,265	126,501	125,668	(833)
EXPENDITURES				
General Government	390,745	470,981	70,225	400,756
Airports	4,500	4,500	7,750	(3,250)
Administration	11,020	40,421	30	40,391
Total Expenditures	406,265	515,902	78,005	437,897
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(360,000)	(389,401)	47,663	437,064
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			25,000	25,000
Total Other Financing Sources (Uses)			25,000	25,000
Net Changes in Fund Balance	(360,000)	(389,401)	72,663	462,064
Fund Balance - Beginning	360,000	389,401	389,401	
Fund Balance - Ending	\$ 0	\$ 0	\$ 462,064	\$ 462,064

FLEMING COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004 (Continued)

CAPITAL IMPROVEMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 3,020	\$ 3,020	\$ 2,604	\$ (416)
Total Revenues	3,020	3,020	2,604	(416)
EXPENDITURES				
General Government	2,000	2,000	500	1,500
Administration	305,682	305,682	50	305,632
Total Expenditures	307,682	307,682	550	307,132
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(304,662)	(304,662)	2,054	306,716
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	304,662	304,662	300,000	(4,662)
Total Other Financing Sources (Uses)	304,662	304,662	300,000	(4,662)
Net Changes in Fund Balance			302,054	302,054
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 302,054	\$ 302,054

FLEMING COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**FLEMING COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

FLEMING COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Jail Fund	Forestry Fund	Dispatch Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 2,301	\$ 209	\$ 69,071	\$ 71,581
Total Assets	<u>\$ 2,301</u>	<u>\$ 209</u>	<u>\$ 69,071</u>	<u>\$ 71,581</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 99	\$	\$	\$ 99
Unreserved:				
Special Revenue Fund Types	<u>2,202</u>	<u>209</u>	<u>69,071</u>	<u>71,482</u>
Total Fund Balances	<u>\$ 2,301</u>	<u>\$ 209</u>	<u>\$ 69,071</u>	<u>\$ 71,581</u>

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FLEMING COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

FLEMING COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Jail Fund	Forestry Fund	Dispatch Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$	\$	\$ 240,293	\$ 240,293
Intergovernmental	55,446	1,355	98,429	155,230
Charges For Services	25,644			25,644
Miscellaneous	20		127,610	127,630
Interest	7		908	915
Total Revenues	<u>81,117</u>	<u>1,355</u>	<u>467,240</u>	<u>549,712</u>
EXPENDITURES				
Protection to Persons and Property	190,896	1,640	215,742	408,278
Debt Service			281,363	281,363
Administration	8,248		35,234	43,482
Total Expenditures	<u>199,144</u>	<u>1,640</u>	<u>532,339</u>	<u>733,123</u>
Excess (deficiency) of Revenues Over Expenditures	<u>(118,027)</u>	<u>(285)</u>	<u>(65,099)</u>	<u>(183,411)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	118,500	352	55,000	173,852
Transfers To Other Funds			(13,052)	(13,052)
Total Other Financing Sources (Uses)	<u>118,500</u>	<u>352</u>	<u>41,948</u>	<u>160,800</u>
Net Change in Fund Balances	473	67	(23,151)	(22,611)
Fund Balances - Beginning	1,828	142	92,222	94,192
Fund Balances - Ending	<u>\$ 2,301</u>	<u>\$ 209</u>	<u>\$ 69,071</u>	<u>\$ 71,581</u>

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FLEMING COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2004

FLEMING COUNTY SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information of Fleming County, Kentucky.
2. Three reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Fleming County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Fleming County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Fleming County reported in Part C of this schedule.
7. The program tested as major program was: Federal Emergency Management Assistance Grant FEMA-1454-DR-KY (CFDA 97.036).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Fleming County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

None.

REPORTABLE CONDITIONS

2004-01 The County Should Maintain An Accurate Schedule Of Expenditures Of Federal Awards

As part of our review of Fleming County's Schedule of Expenditures of Federal Awards, we noted that the federal expenditures reported for the Federal Emergency Management Assistance (FEMA) grant were not accurate. The Schedule of Expenditures of Federal Awards should have included only the federal portion of FEMA projects done during fiscal year ending June 30, 2004. OMB Circular A-133 requires the auditee to prepare an accurate Schedule of Expenditures of Federal Awards. An inaccurate Schedule of Expenditures of Federal Awards potentially could be a material noncompliance and could jeopardize federal funding. We recommend the treasurer follow the guidance in OMB Circular A-133 and prepare an accurate Schedule of Expenditures of Federal Awards in the future.

County Judge/Executive Larry Foxworthy's Response:

Procedure has been corrected.

County Treasurer Kathryn Dryden's Response:

Amounts were corrected and will be calculated correctly next year.

FLEMING COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplementary Information
Fiscal Year Ended June 30, 2004
(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2004-02 The County Should Eliminate The Deficit In The Payroll Revolving Account

Auditors noted during audit procedures that the payroll revolving account had a deficit of \$10,757. Deposits should equal the amount of the checks written, leaving a zero balance in the account for each pay period. The treasurer should review this monthly to ensure she is depositing the appropriate amount into the payroll revolving account. Auditors have subsequently reviewed current bank statements and have noted that the payroll revolving account deficit has increased from June 30, 2004. We recommend the county eliminate the deficit in the payroll revolving account and review the payroll revolving account more carefully.

County Judge/Executive Larry Foxworthy's Response:

Judge will review monthly payroll ledgers to make sure they have correct balances.

County Treasurer Kathryn Dryden's Response:

This has all been addressed, and would have been earlier if it had been commented on earlier.

Auditor's Reply:

The county treasurer is responsible for reconciliation of all bank accounts of the county. Proper reconciliation, or simply monitoring the bank balance, would have disclosed this deficit in the payroll revolving account. This is a duty of the county treasurer.

2004-03 Lacks Adequate Segregation Of Duties

The County's internal control structure has a lack of adequate segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. Finance Office should maintain an appropriation ledger and reconcile it to the county treasurer's at least once a month.

During our audit procedures, we noted the controls over access to the accounting records were weak. The County has six computer terminals that are connected to a main server. From all six terminals it is possible to access the accounting system if the password is known. In addition, we determined the County Treasurer and the Finance Officer have the same password. Security levels should be established and only the County Treasurer should have access to the accounting program to post accounting transactions. We recommend computer controls be strengthened to prevent unauthorized access to the accounting system. Moreover, passwords should be changed on a regular basis and should not be shared among employees.

Additionally, we recommend the following compensating controls be implemented to offset the other internal control weaknesses:

- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. This can be documented by the person initialing the envelope or bank statement.

FLEMING COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplementary Information
Fiscal Year Ended June 30, 2004
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

REPORTABLE CONDITIONS (Continued)

2004-03 Lacks Segregation Of Duties (Continued)

- An independent person should complete bank reconciliations or review the treasurer's bank reconciliations for accuracy. This can be documented by the person initialing the bank reconciliation.
- An independent person should compare fiscal court order approvals to invoices and cancelled checks.

Judge/Executive Larry Foxworthy's Response:

We have implemented some of these and continue to comply with additional recommendations as time and budget will allow.

County Treasurer Kathryn Dryden's Response:

We implemented these for 2004-2005.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

The County Should Post All Receipts and Disbursements - Cleared in FY 2004

Lacks Adequate Segregation Of Duties - Repeat comment in FY 2004. See comment 2005-03

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FLEMING COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FLEMING COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
Emergency Management Performance Grants - (CFDA 97.042)		
Rescue Squad Equipment	Not Available	\$ 4,395
Emergency Management Equipment	Not Available	7,255
Equipment and Security	Not Available	6875
Ambulance Equipment	Not Available	11,133
D.E.S. Coordinator Salary	Not Available	5,404
Total CFDA 97.042		<u>\$ 35,062</u>
Public Assistance Grants - (CFDA 97.036)		
Severe Weather	FEMA 1454-DR-KY	445,955
Severe Weather	FEMA 1471-DR-KY	129,803
Total CFDA 97.036		<u>575,758</u>
Total U.S. Department of Homeland Security		\$ 610,820
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
Public Safety Partnership and Community Policing Grants - (CFDA 16.710)		
Violence Against Women	Not Available	\$ 56,529
Total CFDA 16.710		<u>56,529</u>
Total U.S. Department of Justice		<u>\$ 56,529</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 667,349</u></u>

FLEMING COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2004

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Fleming County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Foxworthy, Fleming County Judge/Executive
Members of the Fleming County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fleming County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the basic financial statements of the County's primary government, as listed in the table of contents and have issued our report thereon dated February 4, 2005. Fleming County prepares its financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fleming County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Fleming County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned cost as items:

- 2004-01 The County Should Maintain An Accurate Schedule Of Expenditures Of Federal Awards
- 2004-02 The County Should Eliminate The Deficit In The Payroll Revolving Account
- 2004-03 The County Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However we do not consider the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fleming County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of Fleming County Fiscal Court, management, and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 4, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Foxworthy, Fleming County Judge/Executive
Members of the Fleming County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Fleming County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Fleming County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fleming County's management. Our responsibility is to express an opinion on Fleming County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fleming County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fleming County's compliance with those requirements.

In our opinion, Fleming County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Fleming County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Fleming County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Fleming County Fiscal Court, management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 4, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

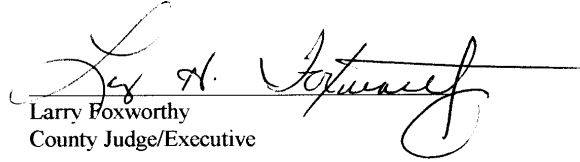
FLEMING COUNTY FISCAL COURT

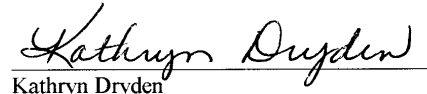
**For The Fiscal Year Ended
June 30, 2004**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
FLEMING COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Fleming County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Larry Foxworthy
County Judge/Executive


Kathryn Dryden
County Treasurer

